Ameren Exhibit 13.0 (Rev.)

ILLINOIS COMMERCE COMMISSION

DOCKET No. 13-0301

REVISED REBUTTAL TESTIMONY

OF

JOHN E. PERKINS

Submitted On Behalf

Of

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

AUGUST 27, 2013

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I. INTRODUCTION AND WITNESS QUALIFICATIONS

Q. Please state your name and business address.

A. My name is John E. Perkins. My business address is 161 Worcester Road, Suite 503, Framingham, Massachusetts 01701.

Q. Are you the same John E. Perkins who sponsored direct testimony in this proceeding?

A. Yes, I am.

II. PURPOSE AND SCOPE

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the direct testimony of Staff witness Ms. Rochelle M. Phipps and IIEC witness Mr. Michael P. Gorman concerning the proper regulatory capital structure to use in determining rates for Ameren Illinois Company (AIC or Ameren Illinois). I will address the need to use the actual capital structure that represents the actual capital invested in providing electric service in AIC's territory rather than the hypothetical capital structures put forth by these witnesses.

Q. Did the Illinois legislation establishing formula rates address the question of the correct regulatory capital structure?

A. Yes. Section 16-108.5 of the Public Utilities Act (Act) states:

> The performance-based formula rate approved by the Commission shall do the following…[r]eflect the utility's actual capital structure for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law.

Q. Are Ms. Phipps and Mr. Gorman's proposed capital structures consistent with the Act?

A. They are not. I understand the legality of the parties' respective positions on this topic will be addressed in brief. Importantly, their proposed capital structures are not actual capital structures and they do not demonstrate that the actual capital structure for AIC is imprudent or unreasonable.

Furthermore, Ms. Phipps and Mr. Gorman fail to recognize that, at least in part, the Act is meant to encourage and support significant capital investments in "electric system upgrades, modernization projects and training facilities." A strong financial position is particularly important so that the utility can access capital at reasonable costs to fund these investments.

Q. What exhibits are you sponsoring with your rebuttal testimony?

A. I am sponsoring the following exhibits:

- Ameren Exhibit 13.1
- Ameren Exhibit 13.2

III. RESPONSE TO STAFF WITNESS MS. ROCHELLE M. PHIPPS

Q. What equity ratio does Ms. Phipps recommend?

A. She recommends an equity ratio of 51%.

Q. Is that the actual equity ratio of AIC?

A. No, it is not.

Q. What does Ms. Phipps base her recommendation on?

A. Very little. Ultimately, she recommends use of the same equity ratio as used in the last case. She does not relate it to actual decisions made in relation to AIC's capital needs and history. Rather, as Ms. Phipps states on page 10 of her direct testimony: "the Ameren equity ratio serves as a useful upper boundary on the equity ratio that would be appropriate for AIC's ratemaking purposes." And on page 11 of her direct testimony, Ms. Phipps recommends "the Commission adopt the same capital structure adjustment that it did in the previous formula rate case."

Q. On page 6 of her direct testimony, Ms. Phipps details the relationship between capital structure and cost of capital. What are her conclusions?

A. She concludes they are related, in that the level of equity effects the overall cost of capital, both by changing the mix of sources of capital and by raising or lowering the cost of all components of the capital structure as the level of equity is reduced or increased respectively.

Q. Does Ms. Phipps conclude what the proper level of equity is based on this relationship?

A. She does not. As she states in her footnote 12:

> Unfortunately, determining the common equity ratio that minimizes cost of capital remains problematic because (1) the cost of capital is a continuous function of the capital structure, rendering its precise measurement along each segment of the range of possible capital structures problematic; and (2) the optimal capital structure is a function of dynamic operating risk and investor risk preferences.

Q. Do you agree with this statement?

A. Every company (and every electric utility) faces different risks (e.g. operating, financial, regulatory) and external conditions, and capital structure decisions should reflect the individual circumstances of the subject company. Using averages or preset notions about correct, or excessive, or inadequate levels of equity can lead to improperly rejecting reasonable actual capital structures that reflect business decisions which take into account the specific risks faced by the utility. That is why regulatory bodies, including FERC, as detailed in my direct testimony (Ameren Exhibit 5.0, p. 12), have used the actual capital structure of a utility in favor of a hypothetical structure unless the former is clearly outside a reasonable range.

Q. In her footnote 12, Ms. Phipps equates the equity ratio that minimizes the cost of capital with the optimal capital structure. Do you agree?

A. No. Even if such a structure could be discerned, and, as Ms. Phipps states, it cannot be, it would not be the optimal structure. As stated in my direct testimony (Ameren Exhibit 5.0, p. 23), among other considerations, short-term cost has to be balanced with the need to provide access to secure funding under all conditions:

> A utility must have access to capital to meet short-term and long-term funding needs for both operations and capital investment. Minimal cost estimated at a single point in time, even if the analysis were based on correct assumptions, cannot be presumed to produce an optimal outcome. The risk of losing access to

> capital or paying an exorbitant price for capital in times of crisis outweighs the desire to shave off a bit of cost by, for instance, lowering the proportion of equity in the capital structure.
>
> …
>
> One of the advantages of having a sufficient amount of equity is that it provides a cushion of funds that are not legally committed to bondholders, thus increasing financial flexibility in times of stress.

Having a strong capital structure, strong credit metrics, and a stable, strong investment grade credit rating enables these programs to be funded at reasonable cost and under reasonable terms and conditions. This is particularly important in a time of rising capital investment, as AIC is experiencing.

Q. On page 7 of her direct testimony, Ms. Phipps claims that using the actual capital ratio for AIC as of December 31, 2012 would violate Section 9-230 of the Act by including an increased cost due to AIC's affiliation with non-regulated companies. Please comment.

A. This would only be true if the actual capital structure of AIC was unreasonable as a capital structure for AIC's business and was instead chosen because of the existence of these unregulated companies. As discussed below, there is no such evidence that AIC's actual capital structure is unreasonable. To the contrary, as discussed in my direct testimony (and not refuted by Ms. Phipps), AIC's capital structure is reasonable considering the capital structures in place at electric operating utilities nationally.

Q. On page 8 of her direct testimony, Ms. Phipps states (referring to a 1995 Appellate Court decision) "In other words, the capital structure of the regulated utility can be manipulated to include excessive equity to inflate the rate of return." Does Ms. Phipps offer any evidence of any such manipulation on the part of AIC?

A. She does not. Ms. Phipps presents no evidence to suggest the capital structure of AIC is, or was, manipulated to include excessive equity to inflate the rate of return. In fact, as discussed in my direct testimony and herein, there was and is good reason to maintain the level of equity that Ameren Corporation (Ameren) has maintained in AIC.

Q. What does Ms. Phipps say about the relationship between formula rates and the choice of capital structure?

A. She states that:

> The authorized rate of return on common equity under the formula rates plan is a function of only two factors: (1) the average yield on 30-year U.S. Treasury bond yields, plus 580 basis points; and (2) possible performance penalties. Consequently, the authorized rate of return on common equity would not respond to changes in the common equity ratio. That is, Section 16-108.5 severs the inherent link between the rate of return on common equity and the level of financial risk associated with a utility's capital structure. Therefore, maintaining a higher common equity ratio at a utility subsidiary results in a higher calculated rate of return under Section 16-108.5 than under traditional ratemaking since the resulting reduction in risk does not translate into a lower authorized rate of return on common equity.

(ICC Staff Exhibit 4.0, pp. 6-7.)

Q. Is this correct?

A. The statement about the methodology used in the rate setting process is correct but that's not the point to be made. The relationship between risk and required return obeys financial laws, not regulatory policy. Investors make their own decisions about the level of risk in a given capital structure and, taking other risk factors into account, they determine the required return on the debt and equity they provide. If the capital structure does not match their desired structure, given their perceptions of all other risk factors, they bid up interest rates and bid down equity prices until that return is achieved. An inappropriate current capital structure will raise the cost of capital and reduce financing flexibility in the future as debt costs rise and more shares must be issued to raise the needed capital. What the mechanics might be in which rates are set does not reflect how investors view risk.

Q. Does ratemaking across the country allow lower return on equity (ROE) to companies with higher equity ratios?

A. No. As shown in Ameren Exhibit 13.1, which demonstrates that equity ratios (as adjusted to account for deferred taxes and to eliminate transmission-only and duplicative rate cases as described in my direct testimony) and allowed ROEs for rate cases in 2012 were uncorrelated, there is no apparent relationship. This suggests regulatory commissions consider other factors in their decisions, rather than enforcing a hypothetical (and undeterminable) relationship between equity ratios and required returns. However, it is still instructive to note the formula-based 8.82 % ROE in the current proceeding is lower than any authorized ROE reported by SNL Financial in the past year for an electric utility.

Q. On page 10 of her direct testimony, Ms. Phipps depicts a table (reproduced below) that shows AIC and Ameren's credit ratings:

	Ameren Illinois	Ameren Corp
S&P	BBB	BBB
Moody's	Baa2	Baa3
Fitch Ratings	BBB-	BBB

Ms. Phipps states that Ameren has the same average credit rating as AIC (ICC Staff Exhibit 4.0, p. 10), combined with a lower equity ratio. She argues that the Commission should impute an equity capital structure commensurate with AIC's "actual" credit rating. Please comment.

A. First, to clarify, I have modified the table above (which shows issuer ratings) to show the actual ratings for debt issued, or to be issued, by the two entities. The table below shows the senior unsecured (or senior unsecured shelf) ratings for the entities. Even this table understates the difference, as AIC is able to issue secured debt (at an even higher credit rating).

	Ameren Illinois	Ameren Corp
S&P	BBB	BBB-
Moody's	Baa2	Baa3
Fitch Ratings	BBB	BBB

The real costs paid by the two entities shows that Ameren Illinois Company would have a lower cost than Ameren. The rating for Ameren Illinois Company is consistent across all three agencies and it should be noted, as described below, that Moody's and Fitch rate Ameren Illinois Company on a stand-alone basis.

However, the important question should be whether the current equity ratio in place at Ameren Illinois Company is already "commensurate" with the "actual" rating of Ameren Illinois Company, given all the risks involved. Ms. Phipps' implication that an equity ratio different from, and lower than, the actual current ratio is "commensurate" with AIC's "actual" credit rating depends on major assumptions, including:

- That the only determinant of the credit rating is the equity ratio;

- That AIC's existing credit ratings are not "actual";
- That there is some equity ratio, lower than the actual one, that is uniquely "commensurate" with AIC's credit rating;
- That the reasonableness and prudence standard in the Act can be ignored in favor of accepting this lower equity ratio; and
- That, all else being equal, imposing a lower equity ratio on AIC will not affect ratings or capital costs.

Q. Is the only determinant of a BBB rating the equity ratio?

A. No. All rating agencies use a combination of business factors (including the regulatory environment) and multiple financial metrics to determine ratings. Therefore, implying that the equity ratio is the only significant determinant of the credit rating for Ameren Illinois Company is incorrect. For example, as described in Moody's Global Infrastructure's ratings methodology "Regulated Electric and Gas Utilities" published August 2009, Moody's attributes twenty-five percent of its rating weight to "Regulatory Framework" and an additional twenty-five percent to "Ability to Recover Costs and Earn Returns." The remaining fifty percent is divided among diversification (10%), liquidity (10%) and four other measures of financial strength: Cash From Operations pre-Working Capital + Interest/ Interest, CFO pre-WC / Debt, CFO pre-WC – Dividends/Debt, and Debt/Capitalization or Debt/Regulated Asset Value. Each of the four measures is weighted at 7.5%.

The other agencies likewise use a variety of qualitative and quantitative factors. Ms. Phipps has failed to acknowledge the many factors that play into a credit rating agency's ratings.

Q. Has Ms. Phipps commented on rating agency actions for AIC?

A. Yes. She has mentioned the possible Standard & Poor's (S&P) debt rating upgrade should the sale of the merchant generating plants be completed. (ICC Staff Exhibit 4.0, p. 8.)

Q. Does this imply that a lower equity ratio should be used for AIC than the actual one currently in place, and that such a ratio would preserve the credit status of Ameren?

A. It does not, nor does Ms. Phipps explain why. Two of the three credit agencies rate AIC independently of Ameren and do not credit the plant sale for improving the credit of AIC. Their ratings will influence AIC's cost of debt. Ms. Phipps continues to ignore this information in her analysis. All the credit agencies have concerns about both the key financial ratios (all of which are related to the amount of equity vs. debt in the capital structure) and business and regulatory risks of Ameren Illinois Company that have nothing to do with the sale of the plants.

Ms. Phipps fails to consider that her proposed equity ratio, which is below AIC's current equity ratio, would negatively affect the cash flow and debt-coverage metrics relied upon by credit rating agencies.

Q. In its report on AIC did S&P comment on management's effort to keep a strong capital structure?

A. They did, in their Summary Ameren Illinois Co. (June 21, 2013):

> The company's historical financial measures have demonstrated a high degree of consistency since 2009. This is the direct result of management's proactive decisions, including a dividend reduction, equity issuance, operation and maintenance cost reductions, and effective management of capital spending. (p. 4)

Q. Is the sale of the plants the only factor of concern in S&P's rating decisions?

A. It is not. In the Summary mentioned above, S&P mentions two concerns, in spite of the overall high rating of its Business risk:

- Slow economic and sales growth within its service territory, and
- Business operations within a "less credit supportive" regulatory

jurisdiction.

As S&P states:

> Key risks to our forecast include the outcomes of future rate cases and our expectation for continued weak economic growth within the company's regulated service territories. (p. 2)

And:

> Important to the company's credit rating is its ability to demonstrate improved effective management of regulatory risk within Illinois, which we assess as less credit supportive. (p. 3)

Q. Does S&P mention concerns on the financial side as well?

A. Yes. These concerns include:

- Consolidated high annual capital spending of about $1.5 billion or greater,

- Historical consolidated positive discretionary cash flow that we (S&P) expect will revert to negative, primarily reflecting higher capital spending (p. 2).

The capital spending, driven in part by the agreement to invest more that was part of the change to formula rates, will impact cash flow and the need for financing and thus investor support. Given the changes in the cash flow, maintaining a strong equity ratio will support the key cash flow measures used for determining the credit rating, which will be negatively affected by the ending of bonus depreciation.

Q. Does Ms. Phipps acknowledge any of the above information from S&P?

A. She does not; Ms. Phipps is unfairly selective in choosing what information from S&P affects AIC's business risks.

Q. Does Ms. Phipps discuss S&P ratings history for Ameren Illinois and its component companies?

A. She does at page 9 of her direct testimony.

Q. Is this relevant to the current situation?

A. No. Since all the rating agencies concentrate on current, and, more importantly, forward looking data, I do not see how this past history impinges on the prudence of AIC's current capital structure, which is the subject of her testimony. The only possible use of this historical analysis would be as part of an analysis of historical debt costs, which Ms. Phipps admits is not feasible.

In any case, Ms. Phipps has not documented the specific reasons for the credit rating changes over the period since 2003. The history of Moody's ratings tells a different story as detailed in my direct testimony. Starting on December 15, 2005, in response to concerns about the regulatory environment in Illinois, Moody's began a series of downgrades that brought ratings on the Ameren Illinois predecessor companies from a single-A level to below investment grade. On July 26, 2006, Moody's downgraded CILCORP to below investment grade and reduced ratings on the other Illinois subsidiaries. On March 12, 2007, all the utilities making up Ameren Illinois Company reached their lowest point of issuer ratings at Moody's when they were reduced to sub-investment grade due to a rate freeze and rollback in Illinois. At this point they had lower ratings than Ameren, their parent company. In 2009, ratings began the recovery process based on the extension of credit facilities and the elimination of the rate freeze.

Fitch has made similar changes. For example, as stated in "Fitch Downgrades Ameren and Illinois Subsidiaries, Remain on Negative Watch" April 2, 2007 they state:

> The downgrades of AmerenCIPS, AmerenCIL and CILCORP to 'BB+' follows the inability of the Illinois utilities to reach an agreement concerning the recovery of purchased power costs with the Illinois Senate before it adjourned before the mid- term break last Friday. In October 2006 Fitch placed the ratings of AmerenCIPS, AmerenCIL, CILCORP, and AmerenlP (collectively

> the 'Illinois Subsidiaries') on Rating Watch Negative due to the uncertain legislative and regulatory environment in Illinois, which greatly increases the risk profile of the companies (See the Fitch Ratings Press Release dated Oct. 10, 2006). These same factors drive the continuation of the Negative Watch.
>
> The downgrade of the parent, Ameren, is based upon an increased overall corporate risk profile due to the regulatory environment in Illinois. The ratings also remain on Negative Watch. While there is a risk of reduction or loss of dividends from the Illinois Subsidiaries, Fitch notes that Ameren's parent company debt is modest (4% of consolidated debt), and the bulk of upstreamed dividends are used to pay common shareholder dividends, which are discretionary. Thus, while the probability of further negative rating action for Ameren is highly correlated to that of its Illinois Subsidiaries, the magnitude of any potential rating change is significantly lower due to the expectation of continued dividend support from AmerenGen and AmerenUE, which together in recent years accounted for bulk of dividends to the parent.

Moody's and Fitch have historically rated AIC and its predecessors on factors arising out of regulated operations. The point being, as I continue to stress, and which remains unchallenged by Ms. Phipps, these credit ratings take into account the specific risks associated with the utility as demonstrated by this history of negative regulatory changes leading to significant credit downgrades irrespective of non-regulated operations.

Q. During the period mentioned by Ms. Phipps, have there been similar regulation-driven rating actions by S&P.

A. Yes. As stated in their "Ameren And Units Downgraded Due To Potential Rate Freeze Extension In Illinois, Still On Watch" (October 6, 2006):

> The rating action on CIPS, CILCORP, CILCO, and IPC (the Illinois utilities) reflects serious concern over the financial health of these companies that possible legislation mandating an electric rate freeze extension of up to three years has raised. Lower ratings on Ameren, UE, and AEGC reflect deterioration in the consolidated business profile and financial metrics, which were

> somewhat subpar for the previous rating level, compounded by the stress of near-term weakening of the Illinois utilities, which account for roughly 30% of Ameren's funds from operations and operating income. Also of concern is the credit exposure of power suppliers to the Illinois utilities. Under Illinois' restructuring law, generators are unable to require collateral postings from the utilities as credit quality deteriorates. Therefore, in the event of a utility insolvency, AEGC could face a liquidity crunch.

And:

> In light of the increasingly hostile political environment in Illinois, Ameren's consolidated business risk profile and the Illinois utilities business risk profiles are now regarded as weak, at '7' and '8', respectively.
>
> UE's business profile remains a satisfactory '5'

Thus Ms. Phipps' characterization of Ameren having a weakening effect on the Illinois utilities' credit ratings in the past (which she states is difficult to measure) is misleading. For all three agencies, the severe negative ratings impacts of the period on the Illinois utilities stemmed from their own regulatory difficulties. Even S&P came to rating their business risk greater than that of the parent company and followed the same path of lowering the ratings because of their own regulatory problems.

Q. Do Moody's and Fitch rate Ameren Illinois Company on the basis of Ameren's consolidated financial condition?

A. No. They do not.

Q. Did Fitch comment on the impact of the sale of the generation units on the credit of AIC?

A. Yes. In their press release "Fitch Places Ameren Genco on Watch Positive Following Divestiture Announcement; Affirm AEE & Subs" (March 15, 2013) they state, "*The transaction* *bears no impact on the credit ratings of UE and AIC.*" (emphasis added)

Q. What is the current outlook for the Fitch rating on AIC?

A. It is Stable, reduced from Positive. As Fitch stated ("Fitch Downgrades Ameren Genco to 'CC"; Revises Ameren Illinois' Outlook to Stable" (January 28, 2013):

> The revision of AIC's Outlook reflects the unfavorable rate decisions decided in late 2012 in the company's first two formula rate plan (FRP) proceedings, suggesting Illinois continues to be a challenging regulatory environment, in Fitch's view.

And:

> A constructive rate order in AIC's next FRP proceeding that indicates less regulatory uncertainty could lead to a one-notch upgrade.

Again, we see once more, how the rating agency is focused on AIC's risks in determining the credit rating.

Q. Has Moody's reviewed Ameren Illinois Company's credit recently?

A. Yes. On June 13 the agency released "Credit Opinion: Ameren Illinois Company."

Q. Has Moody's commented on the regulatory situation in Illinois?

A. Yes. In the section entitled "Ratings Drivers" they continue to list "Regulatory environment remains challenging" as one of the key drivers, in spite of their recognition of the legislative progress made. They continue to rate the Regulatory Framework, which constitutes 25% of the rating, as Ba, sub-investment grade.

Q. Are there other, AIC specific, ratings drivers?

A. Yes. Moody's mentions "High capital expenditures over the next several years" as the only other negative ratings driver. This supports the contention I have been making all along that the need for capital warrants utilization of an actual capital structure; not a weaker hypothetical capital structure, and by " a weaker hypothetical capital structure," I mean a capital structure with a larger debt burden. Sufficient equity will protect the credit ratios and ratings during a period of high capital expenditure when they are needed most.

Q. Is Ameren's divestiture of generation, or anything to do with the parent company, mentioned as a ratings driver?

A. It is not, consistent with Moody's policy of rating entities on their own merit. AIC's own business risks and financial metrics are taken into account by Moody's when determining its ratings.

Q. Do they see the key ratings financial metrics as likely to improve this rating?

A. No. They say "Financial and cash flow metrics are commensurate with Baa rating" and they mention that:

> The company recorded a CFO pre-WC/debt ratio of 26% and 23% in 2010 and 2011, respectively, though this credit measure declined to 19% in 2012. The decline in 2012 can be partly attributed to the 8.8% allowed return on equity (ROE) calculated under EIMA's formula rate in 2012, which is substantially lower than the ICC's 2010 electric rate order, which had established the allowed ROE at 10.2%.

AIC's real equity ratio is sufficient, by limiting debt in the capital structure, to keep the current ratings in spite of pressure on cash flow measures which would be exacerbated by having a more debt-heavy capital structure.

Q. You reported the current Moody's ratings for key credit considerations (both financial and business-related) in your direct testimony. What is Moody's outlook for these considerations going forward?

A. Moody's rates individual components of its business and financial risk measures on the same type of scale that they do for the overall company. The current ratings I reported in my direct testimony, which bear repeating in light of Ms. Phipps' positions, were as follows:

Diversification	Ba
Liquidity	Baa
(CFO pre-WC + Interest/ Interest)	Baa
CFO pre-WC / Debt	A
CFO pre-WC– Dividends/Debt	Baa
Debt/Capitalization	A

Moody's 12-18 month forward-looking indicators as of the June 2013 report are:

Diversification	Ba
Liquidity	Baa
(CFO pre-WC + Interest/ Interest)	Baa
CFO pre-WC / Debt	Baa
CFO pre-WC– Dividends/Debt	Baa
Debt/Capitalization	A

Diversification is market position for Ameren. CFO is cash from operations and WC is working capital (changes in assets and liabilities like accounts payable). Changes in working capital are subtracted from cash flow from operations because they are usually not permanent sources of cash. The three CFO-related ratios show the relative strength of the company's cash flow coverage of interest, the cash flow versus debt obligations, and the cash left over after paying dividends. All forward indicators are rated the same as for the actual historic ratios from my direct testimony except for a decrease in CFO pre-Working Capital/Debt so there is an expected decrease in the average of these ratings. As Regulatory Framework is still ranked as Ba, and Ability To Recover Costs And Earn Returns is still Baa, the dependence on the strength of the equity ratio (which contributes to the strength of all the financial components) to support the financial ratings is still vital.

Q. Based on the above analysis, is there any indication that the Fitch and Moody's current ratings are not the "actual" ratings for AIC?

A. No, there is not. Fitch and Moody's continue to rate AIC on a stand-alone basis, based on the actual financials, which includes the equity ratio and its associated impacts on all other ratios.

Q. Is there any indication, from reviewing any of the three agencies' reports, that: (1) there is some equity ratio, lower than the actual one, that is uniquely "commensurate" with AIC's credit rating, and (2) all else being equal, imposing a lower equity ratio on AIC will not affect ratings?

A. No, there is not. All three rating agencies have expressed concern about regulation and the need for strong financial metrics.

Q. Has SNL changed its opinion on Illinois regulation?

A. They have not. They still rate it Below Average 2, their second-lowest rating (in fact, only one jurisdiction is rated lower). In common with the rating agencies they still are concerned by the Illinois environment.

Q. Based on your review of the rating agency reports on AIC, and your past experience with rating agencies, is there any discernible equity ratio which is "commensurate" with either the current or some hypothetical "actual" credit rating for AIC?

A. There is not. There are too many other considerations for there to be such a ratio.

Q. On pages 11-12 of her direct testimony, does Ms. Phipps attempt to evaluate her proposed hypothetical capital structure for reasonableness?

A. Yes, she makes the attempt, and puts the prescribed Illinois process on its head. This process specifies that the real utility capital structure should be used provided it is reasonable, not that some other ostensibly hypothetically reasonable equity ratio can be substituted for the real one.

Q. Does Ms. Phipps attempt to use industry data to attempt to support her argument?

A. Yes. She states that the average equity ratio for BBB-rated electric utilities is 47.16%.

Q. What does she base her argument on?

A. She uses data from the Compustat Utility Database.

Q. Please comment on the analysis.

A. Based on the workpaper (Ameren Ex. 13.2) supplied by Ms. Phipps, the equity ratios are very dispersed, with a standard deviation of 9.5%, and with results ranging from -.2% to 69.9%.

In fact, based on the workpaper, the equity ratios overlap with those for all the other rating categories from BB and below to AA and above. Numbers this broadly dispersed indicate little about reasonable capital structures.

Q. What conclusions do you draw from this data?

A. First, using average equity ratios is misleading when attempting to justify a hypothetical ratio to substitute for the actual ratio in a particular case and, secondly, limiting the data used to a particular rating category does not improve the result. In short, there is no unique equity ratio that is "commensurate" with a given credit rating.

IV. COMMENTS ON MS. PHIPPS' OBJECTIONS TO TESTIMONY

Q. On page 16 of her direct testimony, Ms. Phipps attempts to dismiss parts of your direct testimony (Ameren Exhibit 5.0, pp. 7-15) by saying that the Commission did not use a double-leverage approach when authorizing a 51% equity ratio in the last AIC electric case. Please comment.

A. First, Ms. Phipps states that there are various interpretations of the term "double-leverage." According to Ms. Phipps' testimony, the author she refers to, Dr. Roger Morin, gives three different approaches, including the third, "The WACC is based on the consolidated data of the parent company and its subsidiary companies" (ICC Staff Exhibit 4.0, p. 17). This definition is similar to the one applied in my direct testimony, "There are two general approaches to the determination of capital structure, stand-alone and some form of incorporation of the holding company structure, referred to here as the double leverage approach." (Ameren Exhibit 5.0, p. 7.)

Q. Is this third version of Dr. Morin's double-leverage definition compatible with or representative of the approach used by the Commission in the last AIC electric case?

A. I believe so. In effect, by using the consolidated capital structure as a cap for the allowed AIC capital structure, and, de facto, substituting this equity ratio for that of AIC, the recommended and accepted capital structure is based on "consolidated data."

More importantly, the section of my direct testimony referred to by Ms. Phipps does not restrict itself to Dr. Morin's definition of double-leverage but rather broadly addresses the difference between two approaches to determining the proper regulatory capital structure to a utility that is owned by a holding company. The two approaches are (1) a stand-alone approach that uses the actual capital structure of the utility and (2) any of a wide variety of methods that use a consolidated or a hypothetical capital structure in place of the actual utility capital structure. My direct testimony, at pages 7-15, is meant to show how academics and regulatory commissions have rejected this substitution, preferring to use the stand-alone capital structure except in cases where it was manifestly inappropriate.

Q. Did the Commission use a stand-alone approach in the last AIC electric rate case?

A. No. It rejected the actual stand-alone capital structure of AIC. It, in effect, used the equity ratio of Ameren, the parent company, by capping the AIC equity ratio at 51%.

Q. What equity ratio is put forth by Staff in this case?

A. They put forth 51%, suggesting the use of the same ratio as in the last case.

Q. What was the ratio for Ameren as of year-end 2012?

A. Per Ms. Phipps' direct testimony (ICC Staff Exhibit 4.0, p. 7), it was 51.27% after adjusting for the debt that Dynegy will assume in connection with its acquisition of Ameren generating assets in 2013.

Q. So, in effect, Ms. Phipps is continuing to link the allowed equity ratio for AIC with that of Ameren's consolidated equity ratio rather than the stand-alone ratio?

A. Yes. And that rejection of the actual capital ratio is precisely what I deal with in the section of my direct testimony which Ms. Phipps attempts to dismiss based on semantics.

Q. On page 18 of her direct testimony, Ms. Phipps attempts to dismiss Ameren Exhibit 5.3, which shows comparable allowed utility capital structures by discussing lease usage by Wisconsin Electric Power Company (WEPCO). Please respond.

A. Ms. Phipps characterizes the data as showing idiosyncratic rate setting policies. Policies certainly vary among jurisdictions, but Ms. Phipps, who also uses general industry data, does not demonstrate that Ameren Exhibit 5.3 is invalid based on a particular instance. In the case of WEPCO, the leases are for power plants and are with We Power, a sister company. Statutory protection from a regulatory reversal is also provided under the 2011 Wisconsin Act 16 - that prevents future regulators from terminating or modifying the terms of the approved lease structures, which for Wisconsin utilities is arguably a better deal than continuing to ask for recovery of actual capital structure elements.

Again, as opposed to Ms. Phipps, we are showing a range of results rather than an average, and are demonstrating that the proposed capital structure for AIC is not unreasonable in the universe of regulatory results shown in Ameren Exhibit 5.3.

V. RESPONSE TO IIEC WITNESS MR. MICHAEL P. GORMAN

Q. What equity ratio does Mr. Gorman recommend?

A. He recommends an equity ratio of 50%.

Q. Is that AIC's actual equity ratio?

A. It is not.

Q. Does Mr. Gorman present data on common equity ratios from electric rate cases?

A. Yes. On Table 2 he lists ratios from an SNL publication. Mr. Gorman then states: "As shown in the table above, the common equity ratios for electric companies since 2008 have consistently been at or below 50%."

Q. Is this statement accurate?

A. It is somewhat misleading. First, the table shows average equity ratios for rate cases over these years, not the ratios for individual companies as allowed in rate cases. In many of the cases these allowed ratios have exceeded 50%. As shown in Ameren Exhibits 5.2 and 5.3 from my direct testimony, there is a considerable range in the allowed equity ratios in any given year's rate cases. For example, in 2012, 33 electric utility cases out of 48 had allowed equity ratios, as adjusted as outlined below, higher than 50.00%. Second, the equity ratio figure on the table for 2012 is 50.55%.

Q. Is the standard for deciding the allowed equity in rate cases in Illinois the average of other rate cases around the country?

A. I am not an attorney, but my understanding is that the standard is:

> The performance-based formula rate approved by the Commission shall do the following…[r]eflect the utility's actual capital structure for the applicable calendar year, excluding goodwill, subject to a

> determination of prudence and reasonableness consistent with Commission practice and law.

Q. Does Mr. Gorman's Table 2, Common Equity Ratio, correctly reflect the actual capital ratios in the cases he cites?

A. No. As explained in my direct testimony, three states include deferred taxes, not an element of capital structure, in the regulatory process. Illinois, and most states do not. Also, the data used by Mr. Gorman includes transmission-only companies, which are significantly different from electric utilities in operating risks, as well as rate cases that use the same results for different classes of customers.

Q. If you adjust for these factors, what are the results for Mr. Gorman's Table 2?

A. As an example, for 2012 the average equity ratio is 51.28% and the median is 51.56%. The ratios range from 42.55% to 59.09%. The actual AIC equity ratio is well within this range as shown in my direct testimony.

Q. Has Mr. Gorman commented on the capital structure of Commonwealth Edison Company (Commonwealth Edison)?

A. Yes. He states that Commonwealth Edison has proposed a capital structure with less than 50% equity (IIEC Exhibit 1.0, p. 7). He states that because Commonwealth Edison has asked for a lower equity ratio, and it has a similar credit rating to AIC, AIC should be willing to accept a lower equity ratio (that is, lower than the ratio that reflects the actual investment in AIC).

Q. Why is Commonwealth Edison's regulatory capital structure less than 50%?

A. It is only less than 50% because the regulatory capital structure subtracts about $2.6 billion in goodwill from the actual equity balance of $7.3 billion. Ignoring this subtraction, which is also applied in Ameren Illinois Company rate cases, the Commonwealth Edison capital structure is above 55%. Commonwealth Edison is not "asking for" a lower equity ratio, it is only acceding to goodwill treatment already established by Commission practice. Ameren Illinois Company also removes goodwill in a manner consistent with previously established Commission practice. Most recently, the Commission affirmed its treatment of AIC goodwill and purchase accounting adjustments to capital structure in Docket Nos. 11-0282, 12-0001, and 12-0293.

It should be noted that Moody's (in its March 13, 2013 Credit Opinion) shows a lower debt to capital ratio for Commonwealth Edison than it does for Ameren Illinois, both on a current and going forward basis, a stronger market position, and generally stronger credit metrics.

VI. SUMMARY

Q. Please summarize your rebuttal testimony.

A. My testimony rebuts the direct testimony of witnesses Ms. Phipps and Mr. Gorman regarding capital structure. While their individual points differ, in general they argue for a capital structure not based on the actual investment in AIC, but based on a hypothetical capital structure tied either to Ameren's consolidated capital structure or some form of average of other companies' structures.

The standard in Illinois, as stated in my quotation above, is that the proper capital structure is "the utility's actual capital structure for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law".

The witnesses have not demonstrated that AIC's actual capital structure is either imprudent or unreasonable.

Both argue that risk has been reduced, either through the change in the regulatory methodology in Illinois or through the expected termination of Ameren's generation investments. The new regulation requires significantly higher investment, which will contribute to negative discretionary cash flow (a reversal of recent positive flows) and thus to a need to finance. Both Ms. Phipps and Mr. Gorman fail to recognize that lowering the equity ratio would reduce balance sheet strength, dilute cash flow and signal to potential investors increasing regulatory risk.

Reaction at the rating agencies to the divestiture has been limited to a lone voice, and even then, the other factors cited by that rating agency as they relate to AIC's business risk profile have been ignored by Staff and IIEC. The others, in line with their analysis of AIC as a stand-alone entity, have not indicated any change in risk or ratings for Ameren Illinois. Even S&P continues to express concern for regulatory risk and the size of the capital program.

The analyses presented by the witnesses with regard to industry capital structure concentrate on averages and ignore the large range in both actual and regulatory allowed capital structure, as can be seen very clearly in the wide dispersal of results in the data Ms. Phipps' presents. The standard is not that the average is the only allowed result, but that the structure not be unreasonable or imprudent. There are also issues with the data, as detailed in the discussions above of the rate case average allowed equity ratio and the Commonwealth Edison ratio used by Mr. Gorman.

In sum, Ms. Phipps and Mr. Gorman do not demonstrate either by reference to third party analyses of risk and financial strength or by comparisons to comparable companies that AIC's actual capital structure is unreasonable or imprudent and thus should not be used for regulatory purposes as required by the Act.

VII. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.